

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats)

March 4, 2002

### Republicans Reverse Course on Debt Reduction

Dear Democratic Colleague:

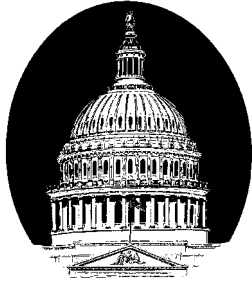
The President's urgent request to increase the statutory ceiling on the public debt is a reflection of the dramatic deterioration of the budget outlook over the last 12 months. When President Bush took office, he inherited unprecedented budgetary bounty. The budget had improved for eight consecutive years, and the surpluses of the last four of those years allowed us to repay \$453 billion of publicly held debt. In fact, a year ago the Administration predicted that we would not need a debt limit increase until 2008 — even if the President's budget was adopted.

Now, the surpluses have evaporated, and deficits have returned thanks primarily to last year's oversized Republican tax cut. The level of debt is entirely a reflection of the budget that gives rise to it, and the return to deficit means that the debt limit may now be breached as early as this month.

The attached issue brief lays out the history and causes of the urgent need to raise the debt limit. I hope you find it informative as you consider this important and rather worrisome matter.

Sincerely,

John M. Spratt, Jr.  
Ranking Democratic Member



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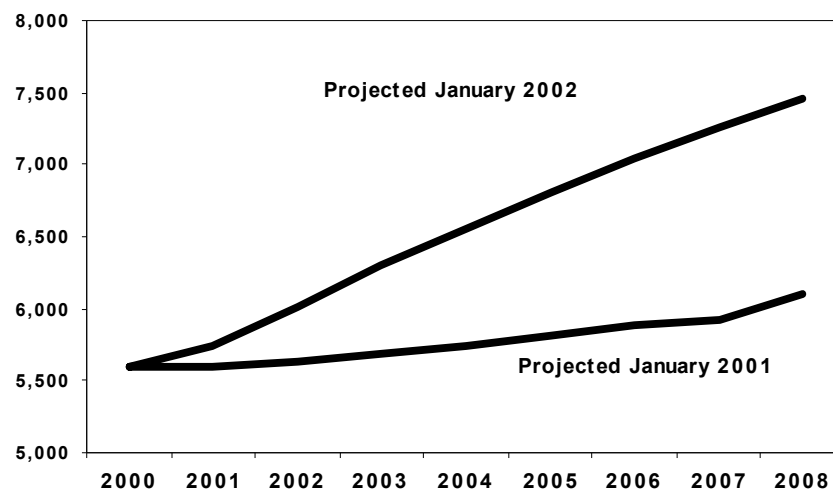
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### Debt Subject to Statutory Limit Billions of Dollars



To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all \$2.6 trillion of the Social Security surplus for Social Security and for Social Security alone....We owe it to our children and grandchildren to act now, and I hope you will join me to pay down \$2 trillion in debt during the next 10 years. At the end of those 10 years, we will have paid down all the debt that is available to retire.

President Bush  
Address to Joint Session of Congress, February 27, 2001

This new approach is also responsible: It will retire nearly \$1 trillion in debt over the next four years. This will be the largest debt reduction ever achieved by any nation at any time.

In sum, there is ample room in the Administration's budget to pay off debt as far as possible, to reduce taxes for American families to fund program priorities, and still leave roughly \$1.0 trillion for Medicare modernization and to meet other programmatic and contingency needs as they arise.

President Bush's Budget Last Year:  
*A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*  
February 28, 2001, Pages 3 and 14

We are going to wall off Social Security trust funds and Medicare trust funds... And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.

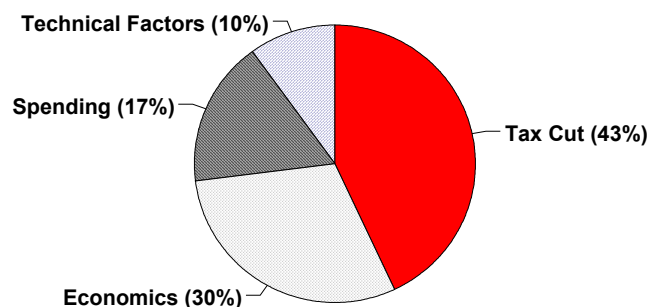
House Speaker Dennis Hastert  
Quoted in BNA's *Daily Tax Report*, March 2, 2001

Very shortly, Republicans will submit urgent legislation to increase the statutory limit on public debt. No increase in the debt ceiling has been needed since 1997, and the President's budget a year ago predicted that one would not be needed until 2008. Unfortunately, the return to deficits in the last 12 months has overthrown this earlier optimism. Whether the public debt increases or decreases depends entirely on whether the budget shows surpluses or deficits, and over the last 12 months, the budget has returned decidedly to deficit.

## **Did September 11 or the Recession Cause the Sudden Increase in Projected Government Debt?**

Some have argued incorrectly that the worst fiscal reversal in the nation's history resulted from the effects of the September 11 attacks or the economic recession. However, the President's budget numbers this year (Table S-16 on page 415 of the *Budget of the United States, Fiscal*

### **Decline of the 10-Year Surplus**



Year 2003 and Table  
2-4 on page 28 of the

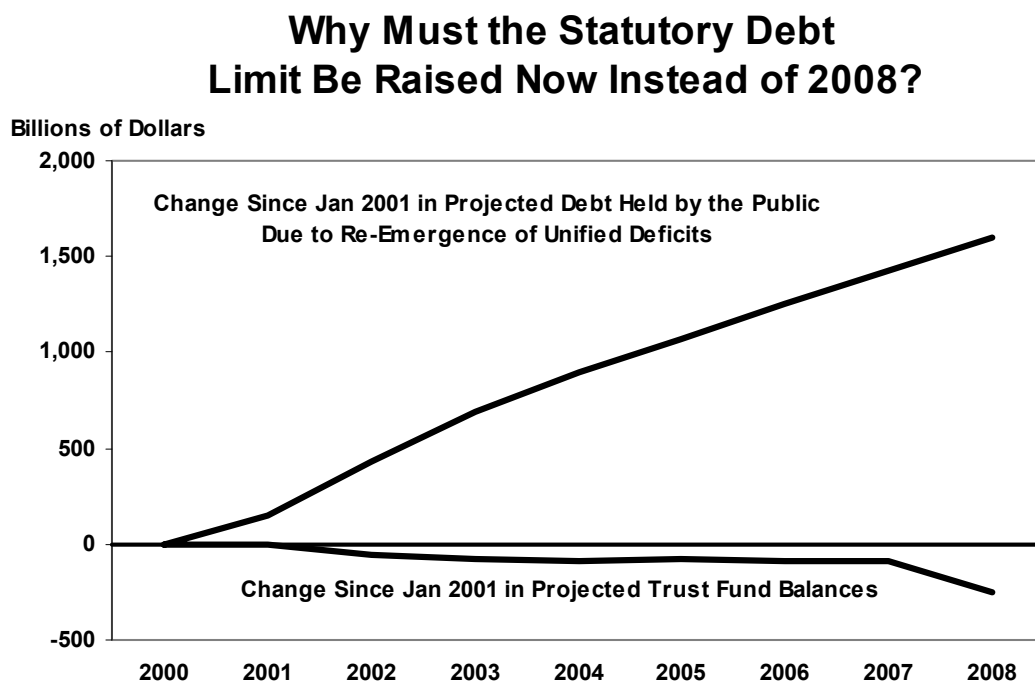
*Analytical Perspectives, Budget of the United States, Fiscal Year 2003*) make clear that this is not so. This is shown in the chart above.

The President's numbers confirm that last year's tax cut accounted for 43 percent of the deterioration of the projected surplus over the past year. By contrast, changed economic circumstances account for 30 percent of the deterioration. Added spending — largely to address heightened security concerns — accounts for 17 percent, while various technical factors account for 10 percent.

Treasury Secretary O'Neill's December 11, 2001, letter asking the Congress quickly to raise the debt limit makes the same point. He notes that the Administration had already foreseen in August the need to raise the debt limit next year, well before the 2008 date forecast in the President's budget. Clearly, the August forecast could not have been affected by the tragic events that took place a month later, which only moved the date for a debt ceiling increase forward by about a year.

### **Did Growing Trust Fund Balances Create the Need for a Debt Ceiling Increase?**

Another incorrect assertion about the dramatic reversal on debt is that the urgent need to raise the debt ceiling results from the Treasury securities in government trust funds, which are a part of debt subject to statutory limit. Actually, projected trust fund debt has declined since last January rather than grown. As the chart below illustrates, it was a dramatic increase in projected debt held by the public that has forced sudden action on the debt ceiling.



The chart also makes clear that the change in projected debt held by the public is not just a short-

term blip caused by pressing needs of the moment. If that were the case, temporary deficits would quickly be followed by a return to the large surpluses foreseen last January for later in the decade. But, as pointed out above, last year's large, multi-year tax cut is not only the single largest factor in the deterioration of long-term surplus, it also is a **growing** drain on the resources that might otherwise be used for debt reduction.

## **A Trillion Here, A Trillion There — Why Worry About More Public Debt?**

In 2008, the first Baby Boomers will become eligible for Social Security. In the years that follow, 70 million Baby Boomers will retire, putting significant pressure on Social Security and Medicare. It had seemed last year that there was bipartisan agreement that the least we could do to prepare for this fiscal challenge was to dedicate the portion of the surplus derived from Social Security and Medicare exclusively to debt reduction.

Democrats, in their budget last year, went further, setting aside an additional \$900 billion of the surplus for debt reduction until agreement could be reached on ways to strengthen Social Security and Medicare. Once agreement was reached, these resources from outside the trust funds would be needed to extend solvency for the two programs.

The logic behind this aggressive approach to debt reduction was sound. It was analogous to what a family facing college expenses should do, namely pay off their credit card balances and their mortgage. If one is facing a large financial claim in the near future, it makes sense to shed as much debt as possible. Doing so puts a family — or a government — in a stronger financial position overall when the big bills come due.

Republicans last year, though, voiced concerns about too aggressive an approach to debt reduction. They worried that there was a danger that we might pay off too much debt, and they justified their large, growing, multi-year tax cut as a way to avoid that danger. Now that \$4 trillion of the 10-year surplus has evaporated — largely due to that tax cut — the problem of too much debt reduction would appear to have been solved.